



From Garage to Greatness:

The Lifecycle of a Qualified Small Business

Under Section 1202

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CHIEF TAX STRATEGIST

Section 1202

PRE-OBDD

Provision	Stock Acquired prior to 7/4/25	
Gain exclusion	100%	Only after 5+ year holding
Per-Taxpayer Cap	\$10M	Or 10x basis (whichever is greater)
Corporate Gross Asset Limit	\$50M	Max \$50 million immediately before and after stock issuance

Section 1202

POST-OBDD

Provision	Stock Acquired prior to 7/4/25
Gain exclusion	Tiered 50% after 3 years, 75% after 4 years, 100% after 5+ year holding
Per-Taxpayer Cap	\$15M Or 10x basis (whichever is greater), adjusted for inflation starting in 2027
Corporate Gross Asset Limit	\$75M Max \$75 million immediately before and after stock issuance, adjusted for inflation starting in 2027

Formation

2015



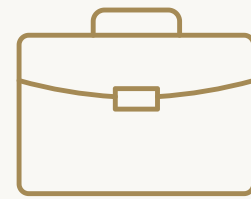
David Ross
FOUNDER

- Section 1202 applies only to C corporation stock
- 75% of startups convert from an LLC to a C-corporation
- Every year operated as an LLC is a year lost for qualification
- Conversion later starts the five-year clock

Building the *Qualified Entity*

2018

- Formation
- Conversion**
- Investment #1
- Growth
- Investment #2
- Exit



LLC



CORPORATION

- Conversion to a corporation aligns tax qualification with investor expectations
- Maintain \$50M gross asset limit
- Active business requirement
- Original issuance requirement
- QSBS five-year clock starts

- Formation
- Conversion
- Investment #1**
- Growth
- Investment #2
- Exit

Institutional *Investment*

2023



- Fund structure allows QSBS exclusion to flow through
- Only partners at time of issuance qualify for QSBS
- Each issuance starts its own five-year holding period
- SAFEs, Options, Convertibles?
- Impact on David as Founder

Losing QSBS Benefit

2018-2031

- Formation
- Conversion
- Investment #1
- Growth**
- Investment #2
- Exit



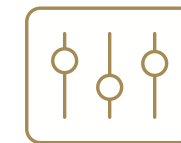
Losing QSBS Eligibility:

80%

Maintain 80% active business test

2

Redemptions – 2 years prior and 2 years after



Gross asset test



Documentation - *Ju v. United States* (2024)

Additional *Investment*

Jan. 1, 2026

- Formation
- Conversion
- Investment #1
- Growth
- Investment #2**
- Exit



New
OBDD rules
apply



Impact on first
round of
institutional
investors?

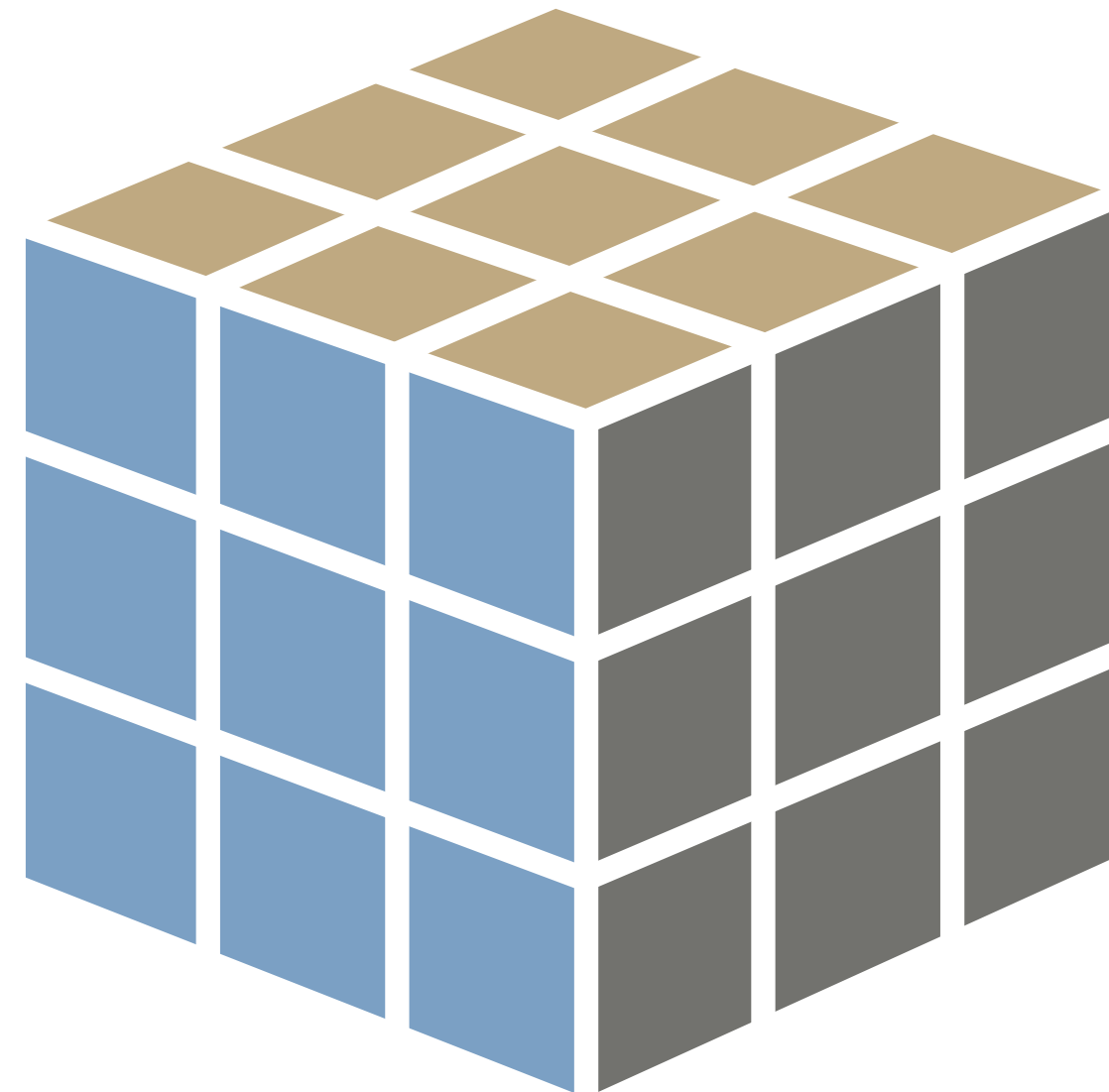


Section 1045
rollover

Reinvest proceeds into
qualified QSBS replacement
within 60 days to preserve
holding period

Mixed Vintage *Challenge*

Jan. 1, 2026



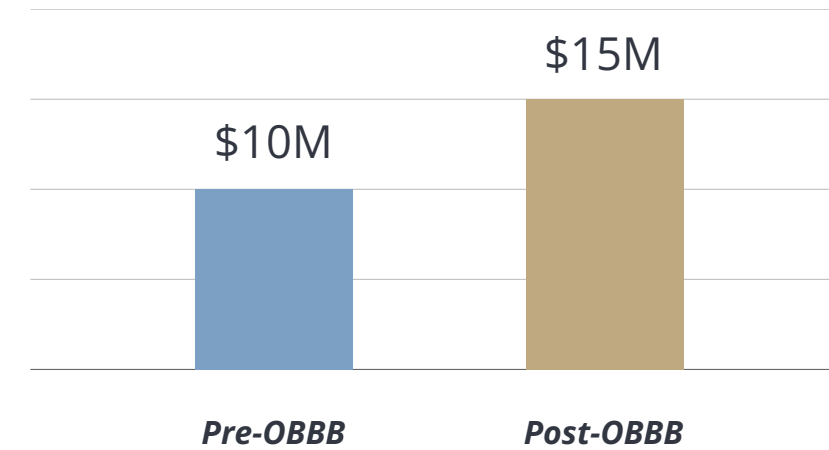
- Formation
- Conversion
- Investment #1
- Growth
- Investment #2**
- Exit

The Grand *Exit* - IPO

- Formation
- Conversion
- Investment #1
- Growth
- Investment #2
- Exit**

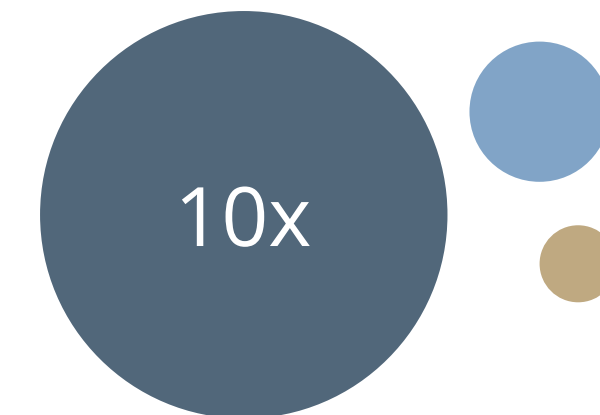
Stacking

- Pre-OBDD \$10M gain exclusion
- Post-OBDD \$15M gain exclusion



Packing

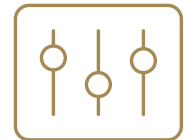
10x basis



Key Takeaways

01

Nearly every decision for the business and its shareholders should be evaluated within context of Section 1202.



02

Eligibility requires design, documentation and discipline.



03

Enhanced outcomes for those who plan early – disorganization or impulsiveness can cost millions.



04

Specialized expertise and experience matters.



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